J. Japanese Int. Economies 31 (2014) 36–52

Contents lists available at ScienceDirect

Journal of The Japanese and International Economies

journal homepage: www.elsevier.com/locate/jjie

The market for corporate subsidiaries in Japan: An empirical study of trades among listed firms

Tatsuo Ushijima [a,*], Ulrike Schaede [b]

[a] Aoyama Gakuin University, Graduate School of International Management, Japan
[b] University of California, San Diego, School of International Relations and Pacific Studies, United States

ARTICLE INFO

Article history:
Received 7 February 2013
Revised 2 December 2013
Available online 11 December 2013

JEL classification:
G34
L23

Keywords:
Subsidiary
Acquisition
Divestiture
Strategic repositioning
Japan

ABSTRACT

Ushijima, Tatsuo, and Schaede, Ulrike—The market for corporate subsidiaries in Japan: An empirical study of trades among listed firms

We investigate trades of wholly- or partially-owned subsidiaries between firms listed on the Tokyo Stock Exchange (TSE) for the years 1996–2010, to explore the economic impact in terms of strategic refocusing, stock market valuation and performance effects. By pairing both sides to each deal, we show differences in firm characteristics, returns, and subsequent performance of buying and selling firms. Unlike mergers between whole firms, most subsidiary deals straddled different industries. Most sellers were larger, more diversified and less profitable than buyers. Our event study reveals that abnormal returns were positive for buyers yet insignificantly different from zero for sellers. However, subsidiary sales in the core business earned negative returns, the more so the larger the deal. An analysis of ex-post operating results shows that the performance of sellers often declined after the trade, in particular for firms that divested a core-related subsidiary. We conclude that subsidiary trades in Japan in this period contributed importantly to strategic repositioning and a more efficient use of corporate assets. *J. Japanese Int. Economies* **31** (2014) 36–52. Aoyama Gakuin University, Graduate School of International Management, Japan; University of California, San Diego, School of International Relations and Pacific Studies, United States.

© 2013 Elsevier Inc. All rights reserved.

* Corresponding author. Address: Shibuya 4-4-25, Shibuya-ku, Tokyo 150-8366, Japan. Fax: +81 3 3409 4167.
E-mail addresses: ushijima@gsim.aoyama.ac.jp (T. Ushijima), uschaede@ucsd.edu (U. Schaede).

0889-1583/$ - see front matter © 2013 Elsevier Inc. All rights reserved.
http://dx.doi.org/10.1016/j.jjie.2013.12.001

1. Introduction

Since 1998 Japan has witnessed a sharp rise in corporate restructuring and strategic repositioning by large companies, sometimes referred to as "choose and focus" (Schaede, 2008). This line of argument posits that highly diversified firms have begun to exit businesses, either out of financial necessity after a decade of slow economic growth or due to a perceived need to be more focused and nimble to succeed in a changing global competitive environment. This repositioning is also reflected in an increase in the number of domestic mergers and acquisitions (e.g. Nomura, 2006). Legal reforms regarding corporate reorganization and stepwise deregulation since 1997 have opened up a variety of new M&A strategies that were previously impossible, just as a change in Japan's shareholder structure away from the previously dominant stable cross-shareholdings has added new incentives for corporate managers to target increased performance and profitability.

However, little evidence exists on the exact link between this strategic repositioning and M&A activities. The literature on Japanese M&A has looked mostly at combinations of whole firms, which often occur between relatively specialized firms that have little need for refocusing (Ushijima, 2010). Kang et al. (2000) showed that, unlike the subsidiary trades studied in this paper, about 80% of whole-firm mergers occurred in the same 2-digit industry. They found significantly positive acquirer abnormal returns to mergers announced between 1977 and 1993. Inoue and Kato (2006), studying whole-firm mergers for the years 1990 through 2001, found positive and significant abnormal returns to the shareholders of target firms. In contrast, Mehrotra et al. (2011) found that mergers did not create wealth for the shareholders of the target firm during the years 1982–2003. Shifting the angle to operating performance following whole-firm mergers, Odagiri and Hase (1989), Yeh and Hoshino (2002), and Kruse et al. (2007) obtained mixed results. Most of these studies use data for the 1980s and 1990s.

The finance literature suggests three prominent explanations for corporate divestitures: efficiency gains (value created by a better fit of traded assets with the buyer) (e.g., Mulherin and Boone, 2000; Maksimxovic and Philipps, 2001; Ray and Warusawitharana, 2009); corporate refocusing (correction of excessive diversification) (e.g., John and Ofek, 1995; Berger and Ofek, 1999); and finance (relaxing financial constraints) (e.g., Lang et al., 1995). This paper adds to this body of work by analyzing these three motivations in the growing market for corporate assets in Japan. We investigate trades of wholly- or partially-owned subsidiaries between firms listed on the Tokyo Stock Exchange (TSE) for the period beginning with the onset of legal reforms regarding M&A, from 1996 to 2010. This time frame allows us to capture important recent changes in strategic repositioning. Because Japanese firms have long and extensively used subsidiaries as an organizational vehicle for diversification (e.g., Kikutani et al., 2007), selling off subsidiaries can be considered the starting point for corporate refocusing.[1] We are interested in the nature of divestitures, firm characteristics, stock market reactions to subsidiary trades, and the effects on corporate performance.

Recent research for the U.S. has suggested that, in contrast to whole-firm takeovers, shareholders of firms that acquire a subsidiary obtain positive and significant wealth gains of about 2–3% (e.g., Fuller et al., 2002; Moeller et al., 2004; Eckbo and Thorburn, 2008); for Europe, these were estimated at 1.4% (Faccio et al., 2006). To our knowledge, ours is the first study of subsidiary trades between Japanese firms. Methodologically, the innovation of this paper is to pair both sides to each transaction, which allows for a comparative analysis of stock market gains and ex-post performance for both, the buyers and sellers.

Our analysis proceeds in three steps. First, we compare firm characteristics of both parties to each deal, and identify several unique aspects of subsidiary trades. In contrast to whole-firm mergers, we find a low incidence of within-industry deals, of less than 20% at the 2-digit level. Moreover, the relative size of trading partners suggests that in contrast to whole-firm mergers, productive assets flowed from larger sellers to smaller buyers. Thus, subsidiary trades in this period were an important complement to whole-firm mergers in recombining assets across firms. Many cases were consistent with proactive refocusing (choose and focus), where sellers divested a non-core business subsidiary

[1] While firms could also refocus by trading an internal division or a plant, high-quality data for such trades are difficult to obtain. For instance, although Recof's M&A database includes data on "business transfers" (trades of non-subsidiary assets), unfortunately it often lacks details regarding the content of these transactions. We leave a study of trades in other operating units for future research.

Download English Version:

https://daneshyari.com/en/article/965091

Download Persian Version:

https://daneshyari.com/article/965091

Daneshyari.com